

**IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF VIRGINIA
ROANOKE DIVISION**

SHASHI, INC.,)	
)	
Plaintiff,)	Civil Action No.: 7:05cv00016
)	
v.)	<u>MEMORANDUM OPINION</u>
)	
RAMADA WORLDWIDE, INC., d/b/a)	By: Samuel G. Wilson
RAMADA FRANCHISE SYSTEMS,)	United States District Judge
INC.)	
)	
Defendant.)	

Plaintiff Shashi, Inc. (Shashi) entered into a license agreement with Defendant Ramada Franchise Systems, Inc. (Ramada), in 2002, which granted Shashi the right to operate its guest lodging facility in Salem, Virginia as a Ramada facility. In December 2004, after Ramada gave Shashi failing marks on three separate quality inspections, Ramada terminated the agreement, but Shashi continued to use Ramada trademarks and to operate under the Ramada banner. Shashi filed suit in state court, seeking an injunction ordering Ramada to allow Shashi to continue operating as a Ramada facility. Ramada removed to this court and countersued, seeking, among other things, a preliminary injunction preventing Shashi from further use of Ramada's trademarks. The court finds that the harm occasioned to Ramada by denying a preliminary injunction would be greater than the harm occasioned to Shashi by granting a preliminary injunction. The court also finds that Ramada has a greater likelihood of success on the merits and that granting Ramada an injunction is in the public interest. Therefore, the court grants Ramada's motion for a preliminary injunction and denies Shashi's motion for a preliminary injunction.

I.

In April 2002, Shashi entered into a license agreement with Ramada Franchise Systems, Inc.

The agreement obligated Shashi to operate its existing guest lodging facility in Salem, Virginia as a Ramada facility for fifteen years. The agreement permitted Shashi to use Ramada's marks and required Shashi to make certain renovations in order to meet Ramada's "System Standards," "Approved Plans," and "Punch Lists." The agreement also required Shashi to achieve scores at a certain level during Ramada's periodic quality inspections and to pay Ramada royalties and "recurring fees." In the agreement, Ramada retained the right to terminate the agreement with notice in the event that Shashi failed to make required monetary payments, failed to cure any default within thirty days of notice from Ramada, or received two or more notices of default within any one-year period. In the event of termination, Shashi agreed to remove all indicia of Ramada affiliation from its facility.

It is uncontested that Ramada conducted quality inspections on February 11, 2003, March 23, 2004, and on October 19, 2004. The parties also agree that the inspectors employed by Ramada assigned Shashi's facility a failing score on each of these inspections.¹ After the Shashi facility failed the March 23, 2004, inspection, Ramada issued a notice of default and informed Shashi that failure of the next inspection in October would result in termination of the license agreement; Shashi failed that inspection.

On December 28, 2004, Ramada informed Shashi that it was exercising its right to terminate the agreement due to excessive defaults and demanded, among other things, that Shashi dissociate its facility from Ramada by removing all Ramada trademarks. As a consequence of the termination, Ramada removed the Shashi facility from its central reservation system, meaning that Ramada was no

¹The Shashi facility only failed the "food and beverage facility" portion of the February 11, 2003, inspection.

longer referring potential guests to the facility.

Upon receipt of Ramada's notice, Shashi filed suit in the Circuit Court for the City of Roanoke, seeking a temporary injunction that would require Ramada to allow Shashi to continue operating a Ramada and to reinstate the Shashi facility into the central reservation system. Ramada then removed to this court and filed a counterclaim against Shashi, seeking a preliminary injunction requiring Shashi to remove all indicia of Ramada affiliation and an order requiring Shashi to pay liquidated damages, owed recurring fees with interest, any revenues derived from unauthorized use of Ramada marks, compensatory damages, treble damages, attorney's fees, and costs of suit. Additionally, Ramada filed a third-party complaint against the sole officers, directors, and shareholders of Shashi, Pramod K. Sharma and Shashi Sharma ("the Sharmas"), as guarantors for Shashi under the license agreement.

On January 26, 2005, this court held a hearing on the parties' dueling motions for a preliminary injunction. The court heard testimony from Pramod Sharma of Shashi and Richard Johnson, coordinator for the quality inspection firm employed by Ramada. Sharma testified that he contacted Ramada representatives after the March 2004 inspection to discuss options for improvement but that he never received a meaningful response from Ramada. Sharma also testified that his failing scores stemmed from failure to meet certain "Punch List" items² which he claimed Ramada had waived. In reference to this alleged waiver of "Punch List" items, Ramada offered a letter, which predated the opening of the Shashi facility and which informed Shashi that Ramada would allow it to go ahead and open the Ramada facility without having *yet* completed several of the "Punch List" items. Finally,

²These "Punch List" items were tasks Ramada required Shashi to complete before Shashi could open its facility under the Ramada banner.

Richard Johnson testified as to the methodology of Ramada's quality inspection program, explaining the scale used by the inspectors.

II.

When determining whether to grant Ramada's motion for a preliminary injunction,³ this court must apply the Blackwelder test, under which the court must weigh 1) the likelihood of harm to Ramada should the court refuse to grant a preliminary injunction; 2) the likelihood of harm to Shashi should the court grant a preliminary injunction; 3) the likelihood of Ramada succeeding on the merits; and 4) the public interest. See Blackwelder Furniture Co. v. Seilig Manuf. Co., 550 F.2d 189 (4th Cir. 1977). If the balance of the harms "tips decidedly" in favor of the party seeking the preliminary injunction, then the required showing of a likelihood of success on the merits is lessened, and the plaintiff need only show a possibility of success on the merits, not a probability of success. See MicroStrategy Inc. v. Motorola, Inc., 245 F.3d 335, 339-40 (4th Cir. 2001) (quoting Direx Israel, Ltd. v. Breakthrough Medical Corp., 952 F.2d 802, (4th Cir. 1991)). The court finds that denying Ramada's request for a preliminary injunction would harm Ramada more than granting a preliminary injunction would harm Shashi. Further, Ramada has shown a probability of success on the merits. Finally, the public interest favors granting a preliminary injunction to Ramada. For these reasons, the court grants Ramada's motion for a preliminary injunction and denies Shashi's.

Unauthorized use of trademarks raises the specter of loss of reputation and business good will

³Though both parties have filed motions for a preliminary injunction, the court frames its discussion in terms of whether to grant Ramada's motion. This is because the court would essentially be granting Shashi the relief they seek should the court deny Ramada's motion: Shashi could continue functioning under the Ramada banner at least until the matter is ultimately resolved.

for the owners of the misappropriated trademarks. See Lone Star Steakhouse & Saloon, Inc., v. Alpha of Virginia, Inc., 43 F.3d 922, 939 (4th Cir. 1995) (“[T]rademark infringement primarily represents injury to reputation.”). “[W]hen the failure to grant preliminary relief creates the possibility of . . . loss of goodwill, the irreparable injury prong is satisfied.” Multi-Channel TV Cable Co. v. Charlottesville Quality Cable Operating Co., 22 F.3d 546, 552 (4th Cir. 1994). Here, the Shashi facility, which continues to operate under the Ramada banner despite Ramada’s revocation of their license to do so, poses a substantial threat to Ramada’s good will and established reputation. Due to Shashi’s continued use of Ramada’s marks, a hotel guest with no knowledge of the termination of the license agreement might evaluate the quality of the Ramada name on the basis of the Shashi facility, which has failed to meet the expectations of Ramada during quality inspections.

Resting on the opposite side of the scales is the harm that granting the injunction might occasion to Shashi. Shashi has already lost business due to Ramada’s removal of Shashi from the central reservation system, and removal of Ramada trademarks and signs would likely further reduce Shashi’s guest load. Further, the cost of removing the Ramada signs and other trademarks would subject Shashi to further monetary loss. However, these losses, unlike the harm to reputation and good will faced by Ramada, are reparable in that they are calculable and capable of redress in an action for monetary damages. Further, though they would have to do so without the Ramada name, Shashi would still be free to operate their guest lodging facility. Thus, the balance of the harms “tips decidedly” in favor of Ramada. See MicroStrategy, 245 F.3d at 339-40.

Further, Ramada has demonstrated a probability of success on the merits. See id. Shashi has yet to present evidence to the court capable of showing that Ramada acted unreasonably or outside the

bounds of the license agreement in terminating the relationship. The license agreement unequivocally granted Ramada the right to terminate upon two breaches within a year, and the failure of the two quality inspections in 2004 triggered this right. Sharma testified that Ramada was unreasonable in assigning the failing scores because he had obtained waivers of several requirements; however, the evidence submitted by Ramada weighs heavily against Sharma's assertion that Ramada granted any waivers. The documents submitted by Ramada suggest that Sharma was given permission to open his facility without having fully complied with all "Punch List" requirements but that Ramada had no intention of waiving the requirements and still expected compliance as soon as possible. Thus, Ramada is likely to succeed on the merits in demonstrating that the Shashi facility is no longer a franchisee and, therefore, is making unauthorized use of Ramada marks.

The final factor for consideration is the public interest. It is in the best interest of the public for the court to defend the integrity of the intellectual property system and to prevent consumer confusion. See, e.g., Church of Scientology Intern. v. Elmira Mission of the Church of Scientology, 794 F.2d 38, (2d Cir. 1986) ("A licensee or franchisee who once possessed authorization to use the trademarks of its licensor or franchisor becomes associated in the public's mind with the trademark holder. When such party, as defendants here, loses its authorization yet continues to use the mark, the potential for consumer confusion is greater than in the case of a random infringer. Consumers have already associated some significant source identification with the licensor. In this way the use of a mark by a former licensee confuses and defrauds the public."). Shashi's continued operation of its facility under the Ramada banner after termination of the license agreement presents a threat to the intellectual property system and risks consumer confusion. Thus, granting Ramada's preliminary injunction is in the

best interests of the public.

III.

For the foregoing reasons, the court hereby grants Ramada's motion for a preliminary injunction.

ENTER: This ____ day of March, 2005.

UNITED STATES DISTRICT JUDGE

**IN THE UNITED STATES DISTRICT COURT
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SHASHI, INC.,)	
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Plaintiff,)	Civil Action No.: 7:05cv00016
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v.)	<u>ORDER OF INJUNCTION</u>
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RAMADA WORLDWIDE, INC., d/b/a)	By: Samuel G. Wilson
RAMADA FRANCHISE SYSTEMS,)	United States District Judge
INC.)	
)	
Defendant.)	

In accordance with the memorandum opinion entered this day, it is hereby **ORDERED** and **ADJUDGED** that the Defendant's motion for a preliminary injunction is **GRANTED**. Plaintiff, Shashi, Inc., and all its agents or others acting in concert with it, including but not limited to Pramod K. Sharma and Shashi Sharma, are hereby **ORDERED**

- 1) to cease any and all use of Ramada trademarks;
- 2) to comply with the license agreement by removing or completely covering any and all signs or other items featuring Ramada trademarks;
- 3) to cancel any previously purchased advertising which portrays the Shashi guest lodging facility as a Ramada facility; and
- 4) to refrain from holding the Shashi facility out in any other manner as a Ramada facility or franchisee.

Pursuant to Federal Rule of Civil Procedure 65, Defendant is hereby **ORDERED** to post a bond in the amount of \$100,000 "for the payment of such costs and damages as may be incurred or suffered by any party who is found to have been wrongfully enjoined or restrained."

Additionally, it is hereby **ORDERED** and **ADJUDGED** that Plaintiff's motion for a preliminary injunction is **DENIED**.

ENTER: This ____ day of March, 2005.

UNITED STATES DISTRICT JUDGE